

Office of Inspector General

Semiannual Report to the Congress
April 1, 2004 – September 30, 2004

www.oig.lsc.gov

**TO THE BOARD OF DIRECTORS
OF THE LEGAL SERVICES CORPORATION (LSC)
AND
THE UNITED STATES CONGRESS**

A MESSAGE FROM THE INSPECTOR GENERAL

Sixteen years ago, Congress created the position of Inspector General for the Legal Services Corporation. There are now fifty-seven offices of inspectors general who carry out the statutory responsibilities set forth in the Inspector General Act to ensure the integrity, efficiency and effectiveness of the programs and operations of federally-funded agencies, including the Legal Services Corporation. I am proud that the Legal Services Corporation Board of Directors has selected me as their Inspector General effective September 1, 2004.

As I start my duties, I look forward to working for the Legal Services Corporation, an organization that has been at the forefront of providing equal access to justice for thirty years. The Legal Services Corporation currently provides funding of \$323 million to more than 140 legal aid grantees throughout the United States to provide civil legal assistance in areas such as housing, consumer issues, family law, domestic violence, employment and government benefits to low-income families. The challenge to the Corporation is to do more with fewer real dollars. The goal of my office will be to add greater value to the Corporation, Congress, taxpayers and low-income persons in need of legal services. In addition to carrying out our Congressional responsibility to oversee compliance with restrictions placed on grantees to refrain from certain activities, I will begin reviewing the internal operations of the Corporation so that the Corporation will be effective and efficient in carrying out its mission.

I am committed to providing timely, accurate and fact-based audits, inspections, evaluations, and investigations to help the Legal Services Corporation assure equal access to justice. I look forward to working with the Board of Directors, President Helaine Barnett, and Legal Services Corporation management and staff as they carry out the mandates of Congress. I also look

forward to working with the Congress, Legal Services Corporation grantees and the other stakeholders in the legal aid community.

This Semiannual Report sets forth the significant activities and accomplishments of this office from April 1, 2004 through September 30, 2004. It details our efforts to assure compliance with the restrictions on the use of Legal Services Corporation funds by grantees. It also looks at our efforts to improve the effectiveness and efficiency of the Corporation.

In this reporting period, the Office of Inspector General issued seven audit reports and other products.

I am very appreciative of the support and enthusiasm that I have received from the Legal Services Corporation during my first month as Inspector General. I am confident that we can achieve our common goal to ensure that the Legal Services Corporation continues to be in the vanguard of ensuring equal access to justice.

Sincerely,

Kirt West
September 30, 2004

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INTRODUCTION

Corporate Structure

The Board of Directors of the Legal Services Corporation (LSC or the Corporation) is composed of 11 members appointed by the President of the United States with the advice and consent of the Senate. The Board sets general policy and oversees the management of the Corporation. The Inspector General reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

Grant-Making Activities

The Corporation is authorized by Congress to make grants and contracts to support the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes grants to entities that, in turn, provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, Guam, and Micronesia.

AUDITS

PROGRAM INTEGRITY AUDITS

For the last several years, the OIG has conducted a series of program integrity audits of selected LSC grantees. These audits assess compliance with the regulatory requirement that grantees maintain objective integrity and independence from organizations that engage in restricted activities, *i.e.*, activities in which LSC grantees are not permitted to engage because they are prohibited or restricted by the LSC Act, the LSC appropriations Act, and/or LSC regulations. In order to maintain program integrity, grantees must be legally separate from organizations engaged in restricted activities, may not transfer LSC funds to such an organization or use LSC funds to subsidize its restricted activities, and must maintain physical and financial separation from the organization.

In the preceding reporting period, the OIG issued an audit report to **California Rural Legal Assistance (CRLA)** in which the OIG concluded that CRLA had not maintained objective integrity and independence from an organization engaged in restricted activities. In the preceding period, the OIG referred the matter to LSC management for follow-up to ensure that the grantee implemented corrective action sufficient to bring it into compliance.

In the current reporting period, the OIG decided to close the audit and accept CRLA's proposed corrective action as meeting the intent of the OIG's recommendations. One of the major reasons the OIG closed the audit is that we have concerns with regard to aspects of LSC's guidance implementing the program integrity and other requirements, making it difficult for the grantees to ensure that they are in compliance with LSC's requirements and for the OIG to assess compliance. Those concerns are more appropriately dealt with outside of the grantee audit process. Accordingly, the OIG will send to LSC management an advisory memorandum, detailing the OIG's concerns and recommending that management provide additional specific guidance to its grantees in the following areas: 1) the permissible level of shared senior staff with organizations engaged in restricted activities and whether the volunteer

status of shared staff is relevant to the program integrity analysis; 2) the permissible scope of co-counseling arrangements with organizations engaged in restricted activities; 3) the allowable level of subsidization of such organizations, if any; and 4) the scope of the requirement that grantees identify their clients and prepare written statements of fact. We will discuss management's actions in our next report.

Program integrity audits of two other grantees are in process: **Volunteer Lawyers Project of the Boston Bar Association** and **Southern Minnesota Regional Legal Services**. Some of the concerns raised in connection with the CRLA audit process are present in these audits as well, and completion of the audits was delayed in part because of the OIG's trying to resolve the CRLA audit with LSC management. The audits should be completed during the next reporting period.

PRIVATE ATTORNEY INVOLVEMENT (PAI) AUDITS

The OIG is conducting a series of audits to evaluate the PAI program and grantee compliance with LSC Regulation Part 1614. This regulation requires grantees to spend an amount equal to at least 12.5 percent of their basic field grants to involve private attorneys in providing legal services to LSC-eligible clients. PAI activities include direct representations and co-counseling with staff attorneys as well as community legal education and private attorney participation in providing brief legal services through hotlines and pro se clinics.

During this reporting period, the OIG issued final reports of PAI audits for Central California Legal Services, Legal Services of Northern California and Western Michigan Legal Services. While the OIG identified several issues for corrective action, none rose to the level of significance

CORPORATE AUDIT

The independent public accountant (IPA) under contract with the OIG issued the audit report for the Fiscal Year 2003 financial statement audit of the

Corporation on April 26, 2004. The IPA rendered an unqualified (clean) opinion on the financial statements and reported that they identified no instances of noncompliance or material weaknesses in internal controls over LSC's financial reporting.

The IPA is scheduled to begin field work for the Corporation's Fiscal Year 2004 audit on November 1, 2004.

AUDIT SERVICE REVIEWS

The OIG is responsible for supervision and oversight of the IPAs who are selected by the grantees to perform annual audits. Pursuant to the grant conditions, these reviews determine whether these IPAs adequately tested compliance with fourteen specific LSC regulations.

During this period, the OIG completed two ASR's, transmitting the results to the grantees and their respective IPAs.

AUDIT REPORTS

| | |
|---------------------------------------|---|
| Open at beginning of reporting period | 2 |
| Issued during reporting period | 6 |
| Closed during reporting period | 7 |
| Open at end of reporting period | 1 |

RECOMMENDATIONS TO LSC GRANTEES

| | |
|--|----|
| Pending at beginning of reporting period | 3 |
| Reported during this period | 10 |
| Closed during this reporting period | 8 |
| Pending at end of reporting period | 5 |

RECOMMENDATIONS TO LSC MANAGEMENT

| | |
|--|---|
| Pending at beginning of reporting period | 0 |
| Reporting during this period | 0 |
| Closed during report period | 0 |
| Pending at end of reporting period | 0 |

EVALUATION PROJECT

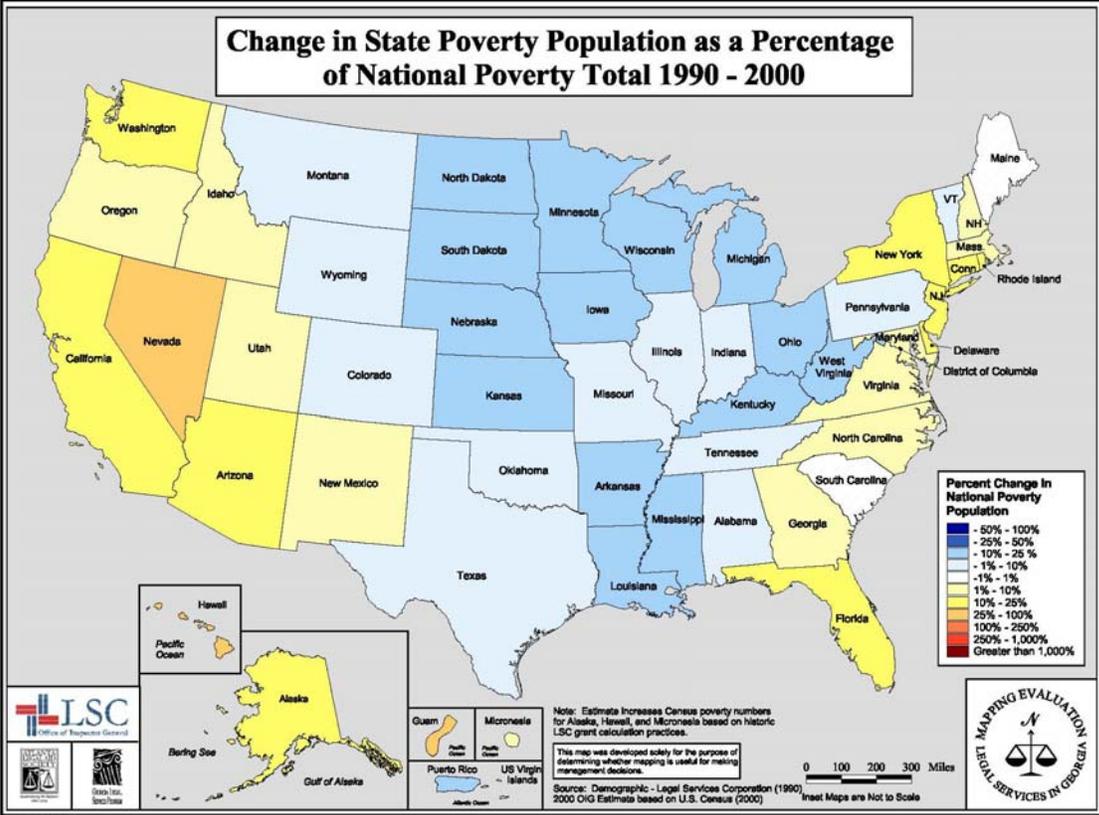
EVALUATION OF LEGAL SERVICES MAPPING

The OIG continued to evaluate the usefulness of legal services mapping as part of the OIG mission to promote efficiency and effectiveness in the activities and operations of LSC and its grantees. This concept evaluation is determining the value of mapping in supporting a wide range of stakeholder interests, including:

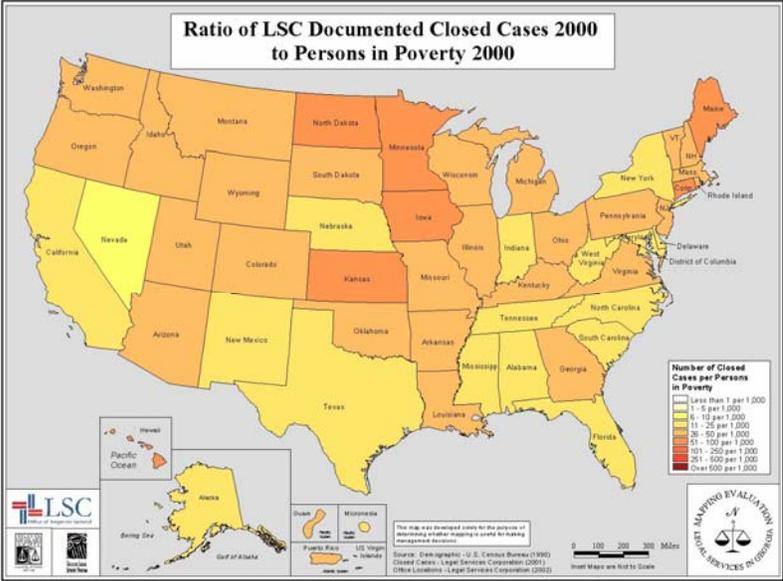
- ◆ Access to legal services for low-income persons;
- ◆ Grantee management information to strengthen planning, resource allocation (including outreach efforts and offices and staff locations), and promotion; and
- ◆ LSC management functions including strategic planning, grantee performance evaluation, and national program promotion.

The 2000 U.S. Census documented the growing numbers of low-income Americans who qualify for federally funded legal services. The OIG map on the next page visually reveals the relative shift of poverty from the center of the country toward the coasts from the 1990 to 2000 Census. This growth/loss pattern is not readily apparent by looking at the data in a table. The OIG developed the map to show the dramatic changes in the proportion of LSC funding by state based on the 2000 Census reallocations¹. North Dakota shows the greatest decrease in poverty, a decline of over 21 percent, with Iowa a close second. Conversely, Guam gained 74 percent and Nevada gained over 62 percent in their relative share of poverty in the ten-year period. Of the nation's total increase of two million people in poverty, California accounted for more than half.

¹ Historically, LSC's appropriation distributes basic field funding by the relative number of individuals in poverty per geographic area as counted by the last decennial census. The fiscal year 2003 and 2004 LSC appropriations included supplemental funding earmarked to partially supplement states receiving less basic field funding due to relative losses in the 2000 Census poverty numbers.



The map below displays the ratio of LSC documented closed cases to persons in poverty by state in 2000. The ratio maps offer a measure of the strategically important access to legal services. Access to legal services in this instance is measured by the number of LSC documented cases closed per 1,000 persons in poverty in a state. Using this measure, the lowest access to legal services in the continental U.S. in 2000 was in Nevada where less than six “LSC cases” per 1,000 income-eligible were closed. This was due in part to Nevada having the greatest growth rate in the poverty population of over 62 percent from 1990 to 2000,

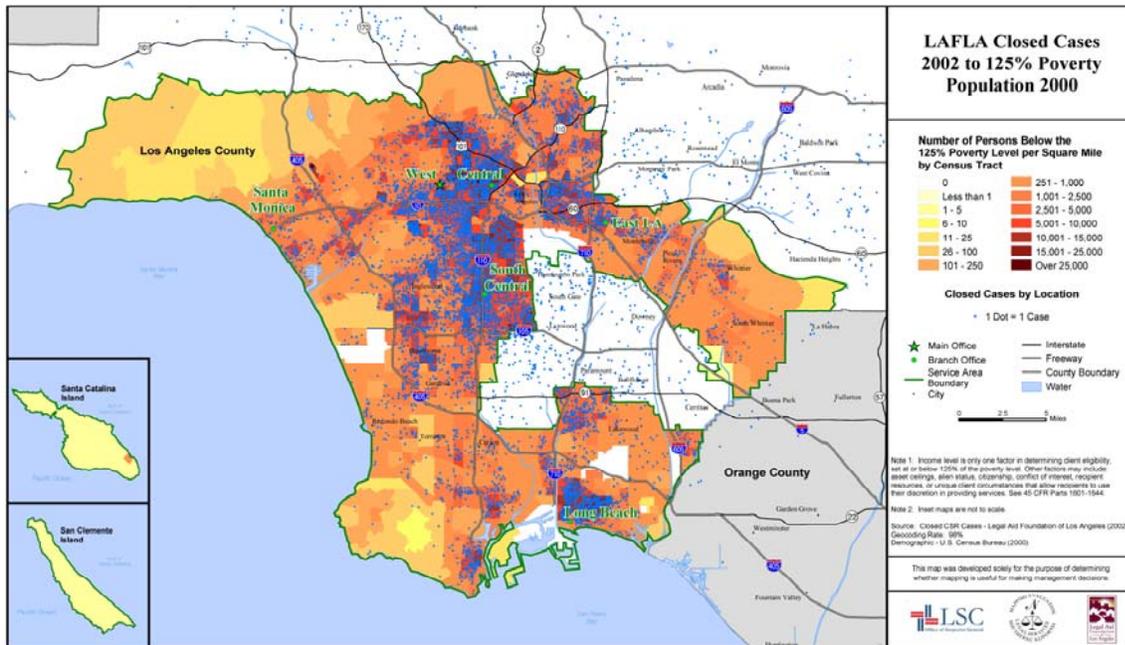


yet receiving federal funding based on the 1990 Census until January 2003. At the high end, Iowa closed over 60 cases per 1,000 persons in poverty, partially a result of a reduction by over 20 percent of its relative share of the poverty population while maintaining 1990 funding allocations. For comparison, the “LSC cases” closed per person in poverty were 10 times greater in Iowa than in Nevada in 2000.

Access to legal services is the product of a myriad of factors such as distribution and density of the poverty population, its urban or rural nature, resource availability, delivery strategy, private bar involvement, degree of extended service, legal need and other circumstances. However, the maps provide state planners, grantees, and LSC program management a basis of comparison of the degree of access to “LSC documented Closed Cases” legal services throughout the United States.

Nationwide maps provide LSC program management, planning bodies and grantees with limited visual comparisons. Such comparisons can provide a perspective on legal services in one state in relation to other states, and provide a national perspective to the legal services program. Although state comparative analysis must take into account the context of the individual situations, maps of this nature can assist in delivery and access performance base–lining, spotting year–on–year trends and highlighting areas of success or challenge. States or grantees identified as extremes can be used as models or targeted for special attention.

At the local level, legal services managers only have Census poverty tables of county totals for their planning efforts. Through the project’s maps, participating grantees are able to analyze trends in specific income–eligible populations by zip code, community and even the street block level. In addition, the project compares legal services provided to the distribution of the income–eligible persons. For the first time maps such as the one on the next page provide a detailed picture of low–income persons’ access to legal service. These maps help managers to easily identify geographic disparities in the availability of legal services and to target resources and fundraising efforts accordingly.



The urban area map displays the Legal Aid Foundation of Los Angeles service area with over 1.2 million income-eligible persons by Census tract with an overlay of LSC defined closed cases in blue. Note the correlation between locations and the income-eligible population.

The on-going phase of the evaluation seeks to determine if legal services mapping is effective in the nation’s most complex poverty environments, defines a small core set of maps that would be universally applicable in any legal services area, and identifies methods to reduce costs for future legal services mapping by LSC and its grantees. Work during the reporting period included active participation of LSC’s grantees in Southern California, Montana and Georgia.

URBAN MAPPING

In Southern California, the OIG is testing mapping with five grantees whose service areas include roughly 4 million income-eligible persons in mostly urban poverty. Robert Cohen, Director of the Legal Aid Society of Orange County (LASOC), calls mapping a “powerful planning and reporting tool that provides insights that would otherwise be very difficult to obtain.” The Southern California grantees’ mapping interests include showing services provided by specific funding sources, so that funders can see the breadth and importance of their financial support to legal aid and access to justice; and, identifying the

distribution of non-English speaking households that present a language barrier to effective legal service delivery.



With the assistance of LASOC, the project is able to bring in other stakeholders including the Superior Court of Orange County and the Santa Ana Police Department. With data from the two organizations, the OIG is creating a larger picture of the legal service universe creating maps of the Court’s low-income cases and the police department’s

domestic violence incidents and comparing each to related services provided by LASOC. Seen in the picture is LSC’s Inspector General, Kirt West (right), presenting the Chief Executive Officer of the Superior Court of Orange County, Alan Slater (left), with a map showing approximately 25,000 thousand services provided by the jointly developed Court and LASOC legal services kiosks.

RURAL MAPPING

In Montana, which has one of the nation’s most sparsely distributed poverty populations, Montana Legal Services Association (MLSA) used maps to help display the geographic and operational challenges of rural legal services delivery to the LSC Board at its September meeting. MLSA will use the maps as part of their planning processes this fall. Working in coordination with the State Bar of Montana, the project was able to produce a map comparing the location of practicing private attorneys in the state with pro bono services to better match resources with need.

In Georgia, the OIG is performing an update of earlier work incorporating the 2000 Census poverty data and more recent grantee case data. The update includes needed technical improvements to map rural service delivery. The project is assessing maps to help analyze grantees’ areas of particular interests, including identifying persistent poverty areas and low-income senior populations.

The project's biggest success has been in proving the value of maps in planning legal services delivery and in earning support from the participating LSC grantees – all are interested in adopting mapping to support management objectives and advocacy. By the end of the next reporting period, the OIG plans to complete the second phase summary report and transfer the project to LSC Management. The report will recommend that LSC further develop legal services mapping for program performance evaluation and provide wider availability of mapping to its grantees.

The OIG thanks the many active participants of the Evaluation of Mapping project. Without their hard work and support, the success of this project would not have been possible.

INVESTIGATIVE ACTIVITIES

The OIG closed one investigative case during the reporting period. The case involved allegations of corruption and other improper conduct in connection with the 2001 grant competition for an LSC service area in Virginia. The OIG found the evidence insufficient to support any of the allegations, and the matter was closed.

The OIG maintained a Hotline for the reporting of illegal or improper activities by LSC grantee or corporate staff. Complaints and allegations are received via telephone, letter and e-mail. During the reporting period, the OIG received 21 hotline contacts. Of these 21 contacts, four required follow-up and five were notifications that thefts had occurred.

INVESTIGATIVE CASES

| | |
|---------------------------------------|---|
| Open at beginning of period | 1 |
| Open during the period | 0 |
| Closed during period | 1 |
| Open at the end of the period | 0 |
| Recommendations for Corrective Action | 0 |

PROSECUTORIAL ACTIVITIES

| | |
|--------------------------------|---|
| Referred this period | 0 |
| Declined prior and this period | 0 |
| Pending | 0 |
| Convictions | 0 |

LEGAL REVIEW

The OIG reviewed and commented on regulatory provisions affecting LSC and the OIG. Comments were provided on proposed revisions to 45 CFR Part 1611, LSC's regulation governing financial eligibility of clients.

TABLE I

Audit Reports Issued with Questioned Costs for the Period Ending September 30, 2004

| | NUMBER REPORTS | QUESTIONED COSTS | UNSUPPORTED COSTS |
|--|-------------------|---------------------|----------------------|
| A. For which no management decision has been made by the commencement of the reporting period. | 0 | \$0 | \$0 |
| B. Reports issued during the reporting period | 0 | \$0 | \$0 |
| Subtotals (A + B) | 0 | \$0 | \$0 |
| LESS: | | | |
| C. For which a management decision was made during the reporting period: | 0 | \$0 | \$0 |
| (i) dollar value of recommendations that were agreed to by management | 0 | \$0 | \$0 |
| (ii) dollar value of recommendations that were not agreed to by management | 0 | \$0 | \$0 |
| D. For which no management decision had been made by the end of the reporting period | 0 | \$0 | \$0 |
| Reports for which no management decision had been made within six months of issuance | 0 | \$0 | \$0 |

TABLE II

**Audit Reports Issued with Funds to be Put to Better Use
for the Period Ending September 30, 2004**

| | NUMBER REPORTS | DOLLAR VALUE |
|--|-------------------|-----------------|
| A. For which no management decision has been made by the commencement of the reporting period. | 0 | \$0 |
| B. Reports issued during the reporting period | 0 | \$0 |
| Subtotals (A + B) | 0 | \$0 |
| LESS: | | |
| C. For which a management decision was made during the reporting period: | 0 | \$0 |
| (i) dollar value of recommendations that were agreed to by management | 0 | \$0 |
| (ii) dollar value of recommendations that were not agreed to by management | 0 | \$0 |
| D. For which no management decision had been made by the end of the reporting period | 0 | \$0 |
| Reports for which no management decision had been made within six months of issuance | 0 | \$0 |

TABLE III

**Index to Reporting Requirements
of the Inspector General**

| IG ACT*** REFERENCE | REPORTING REQUIREMENT | PAGE |
|--------------------------------|---|-------------|
| Section 4(a)(2) | Review of legislation and regulations | 13 |
| Section 5(a)(1) | Significant problems, abuses, and deficiencies | None |
| Section 5(a)(2) | Recommendations with respect to significant problems, abuses, and deficiencies | None |
| Section 5(a)(3) | Prior significant recommendations on which corrective action has not been completed | None |
| Section 5(a)(4) | Matters referred to prosecutive authorities | None |
| Section 5(a)(5) | Summary of instances where information was refused | None |
| Section 5(a)(6) | List of audit reports by subject matter, showing dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and funds to be put to better use | None |
| Section 5(a)(7) | Summary of each particularly significant report | 2 |
| Section 5(a)(8) | Statistical table showing number of audit reports and dollar value of questioned costs | 14 |
| Section 5(a)(9) | Statistical table showing number of reports and dollar value of recommendations that funds be put to better use | 15 |
| Section 5(a)(10) | Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period | None |
| Section 5(a)(11) | Significant revised management decisions | None |
| Section 5(a)(12) | Significant management decisions with which the Inspector General disagrees | None |

***Refers to sections in the Inspector General Act of 1978, as amended

Office of Inspector General
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington, DC 20007